

Message Text

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SUBJ: AEROSPACE INDUSTRY -- OFFSET ISSUE

REF: OTTAWA A-332, JULY 17, 1974

1. BEGIN SUMMARY. OFFSET POLICY WAS DOMINANT THEME OF ANNUAL ECONOMIC OUTLOOK CONFERENCE OF AIR INDUSTRIES ASSOCIATION OF CANADA (AIAC) HELD AT MONTEBELLO, QUEBEC, OCT 9 (ATTENDED BY EMBASSY'S TCO). CONFERENCE FEATURED SERIES OF STRUCTURED DIALOGUES BETWEEN INDUSTRY COMMITTEES, WHICH HAD BEEN INVESTIGATING ECONOMIC CONDITION OF VARIOUS SEGMENTS OF INDUSTRY OVER PAST SEVERAL MONTHS, AND SENIOR GOVERNMENT OFFICIALS FROM INDUSTRY, TRADE AND COMMERCE: TRANSPORT; SUPPLY AND SERVICES; AS WELL AS NATIONAL DEFENSE. INDUSTRY GROUPS PUSHED HARD FOR FIRMNESS IN DEVELOPMENT OF OFFSET REQUIREMENTS, BUT GOC RESPONSES WERE GENERALLY CAUTIOUS. END SUMMARY.

2. INDUSTRY TEAMS MADE PRESENTATIONS DEALING WITH AIRFRAME, ENGINE, AVIONICS, AND REPAIR-OVERHAUL-MAINTENANCE SECTORS. BY AND LARGE ALL WERE PESSIMISTIC

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ABOUT OUTLOOK IN CONTEXT PRESENT ORDER BOOKS AS WELL

AS EXISTING GOVERNMENT POLICIES AND PROGRAMS. OFFSET EMPHASIZED AS SIGNIFICANT REMEDY PRIMARILY IN RELATION TO AIRFRAME AND AVIONICS SECTORS. ENGINE GROUP CITED SEVERE SHORTAGES OF SKILLED LABOR AS MAJOR INHIBITING FACTOR IN ITS OUTLOOK, WHILE REPAIR, MAINTENANCE AND OVERHUAL GROUP EMPHASIZED FRAGMENTED CHARACTER OF INDUSTRY AND CALLED FOR ESTABLISHMENT SINGLE LARGE COMPANY, ENCOURAGED BY GOC, TO MANAGE THIS INDUSTRY AND PUSH IT MORE INTO EXPORT AND NON-MILITARY MARKETS.

3. AIRFRAME TEAM ATTRACTED MOST OF THE DISCUSSION. GROUP INVESTIGATION FOUND THAT PRESENT LEVEL OF ACTIVITY WAS DECLINING AT RATE OF 10 PERCENT ANNUALLY SINCE GOC HAD NOT ANNOUNCED ANY NEW PROCUREMENT PROGRAMS IN RECENT YEARS. LRPA APPEARED UNCERTAIN, NEW FIGHTER FOR ARMED FORCES NOT BEING ADEQUATELY PROMOTED, DECISION TO BRING DHC-7 INTO PRODUCTION NOT TAKEN, OPPORTUNITIES FOR CANADA PARTICIPATE IN 7-X-7 PROGRAM APPEARED SLIM, AND GOC WILLINGNESS PROMOTE DESIGN AND DEVELOPMENT OF SMALL FUTURE COMMERCIAL JET APPEARED SPECULATIVE.

GROUP CONSEQUENTLY URGED DECISION BE TAKEN PROMPTLY PROCEED WITH PRODUCTION OF DHC-7 AND THAT A CLEAR 50 PERCENT OFFSET POLICY BE REQUIRED OF CANADIAN MILITARY ON FUTURE PURCHASES AND A 25 PERCENT OFFSET BE REQUIRED OF AIR CANADA (WITH 2/3 OF THE OFFSET GOING TO CANADIAN AIRFRAME INDUSTRY).

4. AVIONICS GROUP POINTED TO EVEN GREATER EROSION OF ITS INDUSTRY AND ALLEGED LITTLE GOC SUPPORT TO HELP IT MEET INROADS FROM IMPORTS. POINTED TO INCREASING DOMINATION OF THIS SECTOR BY MULTI-NATIONAL CORPORATIONS IN WHICH GOC HAS INADEQUATE CLOUT. (IT WAS NOT MADE CLEAR THOUGH AS TO WHICH MULTI-NATIONALS WERE CULPRIT IN THIS CASE). GROUP URGED NEED FOR INCREASED GOVERNMENT TO GOVERNMENT MARKETING IN AVIONICS. CANADA MUST EMULATE EXAMPLE OF UK AND GERMANY IN DOING THIS.

5. GROUP RECOMMENDATIONS WERE SUBSEQUENTLY COMMENTED LIMITED OFFICIAL USE

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UPON BY SENIOR OFFICIALS OF FOUR DEPARTMENTS (NATIONAL DEFENSE; INDUSTRY; TRADE AND COMMERCE; TRANSPORT; AND SUPPLY AND SERVICES) WHO GENERALLY WERE QUITE RESTRAINED IN DEGREE OF APPROVAL THEY EXPRESSED WITH RESPECT TO INDUSTRY DEMANDS, ESPECIALLY ON OFFSET. ONLY DND REPRESENTATIVE (LT. GENERAL W. K. CARR, DEPUTY CHIEF OF DEFENSE STAFF) APPEARED TO GIVE STRONG SUPPORT TO VIGOROUS IMPLEMENTATION OF OFFSET

REQUIREMENTS (AT 50 PERCENT TARGET) STRESSING NEED FOR STRONG DOMESTIC AEROSPACE INDUSTRY SUPPORT MILITARY OBJECTIVES. ITC AND MOT REPRESENTATIVES (C. D ARTHUR, GENERAL DIRECTOR, TRANSPORTATION INDUSTRIES BRANCH, ITC AND MICHAEL BUTLER, SENIOR MINISTRY EXECUTIVE, MOT) WERE MUCH MORE SUBDUED AND NATURALLY FOCUSED MORE ON AIR CANADA AND OTHER CIVILIAN PURCHASERS. BUTLER APPEARED ESPECIALLY NEGATIVE TO OFFSET CONCEPT AND OBJECTED TO PLACING UNNECESSARY AND IMPROPER COSTS ON ANY CANADIAN AIR CARRIER. HE STRESSED IMPORTANCE OF AIR TRANSPORT TO CANADIAN ECONOMIC GROWTH AND DEVELOPMENT AND STATED THAT PUTTING ADDED COSTS ON TRANSPORT CARRIERS TO SUPPORT THE MANUFACTURING INDUSTRY WAS NOT ACCEPTABLE. LIKEWISE ARTHUR INDICATED THAT IMPLEMENTATION OF OFFSET POLICY MUST BE WITHIN A FRAMEWORK OF COMPETITIVE BIDDING AND MUST BE NEGOTIATED IN SUCH A WAY AS NOT TO AUGMENT THE COSTS OF OBTAINING THE TRANSPORT EQUIPMENT. HE STATED THAT ANY INCREASED COSTS OF PROCUREMENT RESULTING FROM OFFSET WILL NOT BE BORNE BY GOC AND THAT AIR CANADA IN PARTICULAR MUST NOT BE PUT AT A COMPETITIVE DISADVANTAGE AGAINST OTHER CARRIERS IN PROVISION OF AIR TRANSPORT.

6. THAT AIR CANADA SHOULD PLAY A MORE DELIBERATE ROLE IN SUPPORT OF THE NATIONAL MANUFACTURING INDUSTRY WAS ASSERTED ON SEVERAL OCCASIONS BY VARIOUS INDUSTRY FIGURES WHO MADE POINT THAT NATIONAL AIRLINES IN EUROPE AND JAPAN WERE ACTIVELY DOING THIS. LITTLE DEBATE ON THIS PROPOSITION OCCURRED, BUT BUTLER AND ARTHUR APPEARED UNEASY ABOUT ITS IMPLICATIONS. E. A. BOOTH (ASSISTANT DEPUTY MINISTER COMMERCIAL SUPPLY, DEPT. OF SUPPLY AND SERVICES), LIMITED OFFICIAL USE

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HOWEVER, REACTED TO THIS ISSUE BY POINTING OUT THAT A TREMENDOUS VARIETY OF AIRCRAFT TYPES ARE USED AND PURCHASED IN CANADA AND THAT AIR CANADA, WHILE THE LARGEST BUYER, DOES NOT DOMINATE TOTAL CANADIAN AIRCRAFT MARKET. HE RETURNED TO THEME OF SUPPLY AND SERVICES MINISTER GOYER AT LAST YEAR'S AIAC CONFERENCE (OTTAWA A-580, NOV 7, 1973) AND URGED NEED FOR ORGANIZED DIALOGUE AMONG ALL CANADIAN CARRIERS (LARGE AND SMALL) WITH RESPECT TO POOLING OR CONSOLIDATION OF THEIR BUYING REQUIREMENTS SO THAT BENEFITS TO CANADIAN MANUFACTURING INDUSTRY COULD BE OBTAINED THROUGH LARGER PURCHASES WHICH WOULD MAKE IDEA OF OFFSET IN CANADA MORE ATTRACTIVE TO FOREIGN SUPPLIERS. BOOTH, HOWEVER, EXPRESSED STRONG SYMPATHY FOR PLIGHT OF AVIONICS INDUSTRY AND SUGGESTED THAT

A MAJOR RESPONSIBILITY OF GOC SHOULD BE TO PUSH
CANADIAN AVIONICS WITH BOEING AND OTHER SUPPLIERS TO
AIR CANADA.

7. ISSUE OF OFFSET IN RELATION TO GENERAL AVIATION
WAS ALSO RAISED REPEATEDLY BY AIRFRAME INDUSTRY TEAM
WHO POINTED TO DOMINANT ROLE OF US FIRMS (ESPECIALLY
CESSNA) IN MARKET AND THAT CANADIAN BUSINESS WAS A
VERY SIGNIFICANT PART OF THEIR TOTAL EXPORT OPERATIONS.
HOWEVER, THIS WAS COUNTERED BY ENGINE PEOPLE WHO
POINTED OUT THAT CANADIAN MANUFACTURERS (ESPECIALLY
UNITED AIRCRAFT) WERE SIGNIFICANT SUPPLIERS OF ENGINES
TO US LIGHT AIRCRAFT MANUFACTURERS FOR NOT ONLY THEIR
CANADIAN MARKET BUT US AND WORLD MARKETS AS WELL.
THEY SUGGESTED THAT THIS WAS AN OFFSET CONSIDERATION THAT
SHOULD NOT BE FORGOTTEN. THIS DISCUSSION LED TO AN
ASSERTION THAT NO SUCH CONSIDERATIONS GOVERNED HELICOPTER
SEGMENT WHICH WAS RAPIDLY GROWING AREA OF US EXPORTS.
A CONSENSUS APPEARED TO DEVELOP AT LEAST AMONG THE
INDUSTRY PEOPLE THAT BELL AND OTHER HELICOPTER
MANUFACTURERS SHOULD BECOME A TARGET FOR PRESSURE.
GOC OFFICIALS DID NOT COMMENT ON THIS SUGGESTION WHICH
WILL PROBABLY BE PURSUED PRIVATELY BY AIAC AT LATER
DATE.

8. COMMENT: NATURE OF DISCUSSION ON THIS OCCASION
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SUGGESTS THAT IMPLEMENTATION OF OFFSET IN CIVILIAN
SECTOR IS NOT FAR ADVANCED WITHIN GOC.
HOWEVER, THERE IS OBVIOUSLY AN ACTIVE DESIRE WITHIN
RELEVANT DEPARTMENTS TO ACHIEVE OFFSET IF
APPROPRIATE MEANS CAN BE FOUND. FACT THAT USG
HAS EXPRESSED CONCERN ABOUT THIS POLICY WAS NOT
PUBLICLY MENTIONED AT MEETING.
PORTER

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